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NAVY MANAGEMENT BY OBJECTIVES

Harold Sherrod Pittman

NAVY MANAGEMENT BY OBJECTIVES

BY

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CHAPTER I

INTRODUCTION

The purpose of this thesis is an examination of the theory and use of the management technique known as "management by objectives," and an in-depth look at the technique's applicability for use by the United States Navy.

During recent years the concept of management by objectives has become widely heralded and practiced in a limited way. However, aspects of it have been widely used in some way though not always in a formalized fashion.¹ Managers and leaders have long recognized the value and variety of use for "objectives". Many see the concept as a new type of dynamism necessary to create an integrated operation.

Peter Drucker, for example, has stated:

Management is not just a creature of the economy, it is a creator as well. And only to the extent to which it masters the economic circumstances, and alters them by conscious, directed action, does it really manage. To manage a business means, therefore, to manage by objectives.²

¹Harold Koontz and Cyril O'Donnell, Principles of Management (New York: McGraw-Hill Book Company, 1968), p. 485.

²Peter Drucker, The Practice of Management (New York: Harper and Brothers, 1954), p. 12.

Another writer has put it this way:

Few aspects of management are more essential to the success of an organization than a clear understanding by each individual in the organization of what its goals are, why they are what they are, and how and in what priority they are to be carried out.¹

Management by objectives is supported by many other writers. For example:

One of the needs expressed by both line and staff people throughout the country is . . . a clarification of aims of the company. Only then, do they say, will they have a better sense of the direction they are to take in their day-to-day employee relations contacts.²

There is much concern today over the need for goals generally: goals for the United States, goals for the cities, goals for corporations and universities, and goals for people, as individuals and as members of these various groups. Too often, however, we find lots of activity but little concern for where it is taking us. Too often we worry about means of transportation without first determining where we want to go. We engage in building and tearing down, making money and spending money, receiving information and giving it, working at jobs day after day without stopping to decide on the goals that those jobs, we hope, will attain. Yet no job in whatever organization has meaning unless it moves us toward a worthwhile goal, unless it helps to achieve the objectives of the organization--and no organization is of any use unless it also helps to achieve the goals of its members. Effective performance thus depends upon the validity of the goals themselves and upon the goal-setting process that is used.³

Some firms have felt that they would rather not

¹David S. Brown, "Importance of Understanding Objectives," The Federal Accountant, March, 1964, p. 63.

²James J. Bambrick, "The Setting of Company Objectives in Employee Relations," Advanced Management, January, 1960, p. 16.

³Charles L. Hughes, Goal Setting (New York: American Management Association, Inc., 1965), p. 8.

define the results expressed. Instead, let "the cream come to the top." In some cases it may be true that the cream comes to the top. You might get a great deal of sour milk along with this cream, however.¹

Management literature is teeming with titles such as "How To Set Objectives," "How We Set Our Objectives," and even with articles on the appropriateness of one objective as opposed to another--profits versus survival, volume versus customer-service, and the like. Less attention has been given to the structure of objectives, pseudo-objectives and constraints. Some sort of conceptual framework embracing the whole range of objectives seems necessary if we are ultimately going to use objectives more effectively. In some orderly way we must relate the "grand design" type of objective with the much more limited objectives lower down in the organization. And we have to examine how one type of objective can be derived from another.²

Any business enterprise must build a true team and weld individual efforts into a common effort. Each member of the enterprise contributes something different, but they must all contribute toward a common goal. Their efforts must all pull in the same direction, and their contributions must fit together to produce a whole--without gaps, without friction, without unnecessary duplication of effort.³

Those concerned with the management of large complex organizations must understand the total potential of management by objectives. They must be concerned also with its implications, its costs, the problems, and possible pitfalls involved in its operation.

¹Edward C. Schleh, Management by Results: The Dynamics of Profitable Management (New York: McGraw-Hill Book Company, 1961), pp. 18-30.

²Charles H. Granger, "The Hierarchy of Objectives," Harvard Business Review, May-June, 1964, p. 65.

³Drucker, The Practice of Management, op. cit., p. 121.

Accordingly, a number of questions are raised to which this paper will be addressed. Specifically:

What is "management by objectives?"

What are the benefits of management by objectives?

What are the limitations of management by objectives?

How is it implemented?

How does management by objectives tie in with Navy procedures?

Method of Research

The primary method of research employed has been library research. This has been supplemented by discussions with a small number of professional people familiar with the applications of management by objectives.

Older books have been researched for background and related management developments, but the emphasis has been on material published during the last few years in order to show the latest trend of management by objectives.

An attempt has been made in this thesis to include all aspects of the applications and functions of management by objectives.

CHAPTER II

DEFINITION AND BACKGROUND

What Is Management By Objectives?

Management by objectives is a powerful management tool and is considered by many to be a method of managing. It is a way of thinking about management in its overall aspects. Its abbreviation, "MBO," is recognized and will continue to be known to most managers.

The ideas behind MBO were popularized by Peter Drucker in the early 1950's. The name most associated with MBO currently is George Odiorne.

Odiorne describes MBO as:

The system of management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.¹

The term is grammatically awkward, and can be considered sensible only when it is considered as grammatically akin to navigational terms. Navigation by the stars, the sun, or some other fixed point of reference indicates the steady reference

¹George S. Odiorne, Management by Objectives (New York: Pitman Publishing Corporation, 1965), pp. 55-56.

point around which the ship's captain and all the crew govern their activity. Management by objectives by analogy suggests that the first step in movement in the organization is a definition of the objectives of the organization, and other activities are governed by their contribution to this central focal point. If the firm's objective is profit, then other activities are geared toward this objective--in making contributions directly or indirectly but always measured by ultimate contribution to the objective. If the objective is philanthropy, the activity changes; if it is national defense, health education, welfare, or labor peace, the purposes of subordinate organizational units are measured by their contributions to those central navigational objectives.¹

Versions of MBO go under a variety of names. The most widely used are:

Management by Results

Goals Management

Integrated Management

MBO, like anything else, may be looked at from many different points of view. Looking solely at its head, one thinks of corporate planning or strategy. Looking solely at its tail, one thinks of appraisal. It is entirely appropriate that MBO should mean different things to different organizations. If an organization is good at planning but poor at operating, its use and view of MBO will be somewhat different from those of an organization in the opposite position.²

¹George S. Odiorne, Training by Objectives (New York: The MacMillan Company, 1970), p. 97.

²W. J. Reddin, Effective Management by Objectives (New York: McGraw-Hill Book Company, 1970), p. 11.

So, MBO can exist in several forms. It has common elements in all forms, and elements which may or may not be present in individual forms.

Reddin cites and describes the major common elements in MBO systems as:

- Objectives established for positions
- Use of joint objective setting
- Linking of objectives
- Emphasis on measurement and control
- Establishment of review and recycle system
- High superior involvement
- High staff support in early stages¹

MBO is based squarely on setting objectives for managerial positions. Those at higher levels may be called "goals," "targets," or "aims," but the basic idea is the same--to decide what the person in the position is required to achieve. Most but not all MBO systems require numerical and time-bounded statements of objectives. A few allow "subjective" statements for staff positions. For any particular position there may be one or over ten objectives. Most systems suggest from four to eight or so objectives.

Most MBO systems employ some kind of joint objective setting. Both superior and subordinate participate in the objective-setting process. There still is much confusion

¹Ibid., pp. 13-14.

within particular systems and among them as to just what is meant by "participation." In most the superior does the preliminary work; in some a consultant does almost all of it. As a minimum, the subordinate's participation is simply his presence at a meeting and a right to be heard. At its maximum it means that the subordinate initiates job redesign proposals and has a strong upward influence.

While not always emphasized in the basic texts, some form of linking of objectives is a part of all MBO systems. Linking is virtually automatic, and if it does not occur, then very loud feedback is usually obtained. More sophisticated linking can take place among staff and line--not so much over quantity, but in the timing of parts of plans which must fit together.

All MBO systems emphasize the necessity of being able to measure results and of being able to control them. If an objective cannot be measured, its attainment cannot be known. If an objective cannot be subject to control, it is simply a prediction and not an objective.

All MBO systems have some form of review of progress toward objectives; some action is taken, and then new objectives are set for the next period. This review is always between the superior and the subordinate.

Most MBO systems involve the superior more than the subordinate. In some the superior sets the objectives, "sells" them, measures them, and evaluates progress.

Few organizations are so well designed or have managers so well trained that MBO can be put in without trained-staff support.

Background

Management by objectives is not a new idea. It has been referred to for many years by a wide variety of terms. The phrase management by objectives, however, has come into wide popular usage only during the last few years.

Henri Fayol speaks of "prévoyance" as the essence of management. He was perhaps one of the first to express the importance of such an approach when he wrote:

The maxim, "managing means looking ahead," gives some idea of the importance attached to planning in the business world, and it is true that if foresight is not the whole of management at least it is an essential part of it. To foresee, in this context, means both to assess the future and make provision for it; that is, foreseeing is itself action already The plan of action is, at one and the same time, the result envisaged, the line of action to be followed, the stages to go through, and methods to use. . . . The preparation of the plan of action is one of the most difficult and most important matters of every business and brings into play all departments and¹all functions, especially the management function.

Whenever an organization has made substantial use of planning, use has also been made in one sense of management by objectives. For planning provides an orderly process for the future development and improvement of a business, and

¹Henri Fayol, General and Industrial Management (New York: Pitman Publishing Corporation, 1949), pp. 43-44.

the laying out of objectives helps to determine the character, composition, and mix to be achieved.

The Westinghouse Electric Corporation over many years has been one of the leaders in the use of MBO. Mark Cresap was one of its vice presidents at the time he wrote the following:

One of the primary intentions influencing the design of the Westinghouse Planning Program has been to create a framework of basic company objectives and policies within which division management can plan and work with broader independence of action than is otherwise possible. Without such a framework, greater centralized control of division activities is necessitated One of the principle functions of management is to plan ahead The answer lies in the flexibility of the same type that military plans must possess, so that incorrect assumptions and unpredicted developments do not destroy the eventual execution of a planned operation.¹

Not only was MBO an important force in business organizations, but its value was becoming apparent in all organizations. The understanding of goals and objectives is vital to the direction of any organization, and there is increasing evidence that even poor administrators can achieve marked results ^{if} of their subordinates understand the objectives they are expected to achieve.²

The term "management by objectives," however, was first used by Peter Drucker when he wrote The Practice of

¹Mark W. Cresap, Jr., "Long Term Planning," Advanced Management Journal (January, 1964), p. 77. Reprint of article in Advanced Management (January, 1953).

²Brown, op. cit., p. 63.

Management in 1954. The quotation in which this occurs was cited earlier. Drucker described a management system as well as the rationale for its use. Thus, the stage was set for an important development in the managerial field.

CHAPTER III

BENEFITS OF MANAGEMENT BY OBJECTIVES

One of the reasons for the popularity of MBO is that it has a wide range of benefits. There are clear benefits to the subordinate, to the superior, and to the organization as a whole. Perhaps the most important benefit of all is that MBO brings the total organizational process into perspective. This is essential if the organization is to achieve its maximum potential.¹

Management by objectives provides the following benefits:

- Improved effectiveness and efficiency
- Better planning
- Increased managerial control
- Acceptance of the human side
- More effective development and appraisal
- Better decisions

These benefits are discussed in greater detail in the remainder of this chapter.

¹Koontz and O'Donnell, op. cit., p. 499.

Improved Effectiveness and Efficiency

MBO provides what is essentially a contract between a superior-subordinate pair. As a minimum, the contract states what both parties feel is an appropriate level of performance. With this kind of contract the possibility of the excuse "You didn't tell me I was supposed to . . ." vanishes. The subordinate's objectives are clearly laid out. He knows what is expected of him. Because of this the subordinate can get on with the job to be done. He is relieved of any ambiguity about what he is to accomplish. A clear charter is provided of what is to be achieved.¹

W. J. Reddin wrote:

Most men and women enjoy work as well as play. What they don't enjoy is being hindered when doing either. One thing that makes organized games fun is that effectiveness standards, objectives, measurement methods, roles, authority, and responsibilities are clearly defined. They are learned as a child and crystal clear to all concerned. Those who do not want organizations to be clearly structured should consider the degree of structure in games and the enjoyment we have when playing them. Most dissatisfaction in organizations stems from a lack of clarity concerning such things as authority and from fuzzy performance standards, not from the simple existence or absence of them. MBO can help clear things up and make work more enjoyable.²

Fully known and understood objectives are essential for organizational integrity. There is no substitute for knowing where one is going and how one proposes to get

¹Reddin, op. cit., p. 195.

²Ibid., p. 196.

there. In order to accomplish this, it is necessary to state objectives clearly. The following also makes this point:

The statement of objectives establishes--or should establish--the overall plan of the organization. These plans need not be made known in detail to everyone in the organization. But, the organization which knows, down to the clerk in the office and the agent in the field dealing with the public, that objectives and goals have been carefully developed, and knows, in general, what they are, is a better, more settled organization in the long run. The pattern of orderliness provided will pay off in achievement in the long run. The organization will be able to go about its business with assurance that there will be less backtracking, less waste and confusion and fewer crash programs than would otherwise be the case.¹

In obtaining organizational efficiency it is not necessary that the formal organization be arranged to conform closely with objectives in the various areas. Rearrangement may or may not be appropriate, depending on the circumstances. However, efficiency is not merely producing a certain result at the lowest cost; worthwhile efficiency is producing a desired result at the lowest cost. We can hardly consider efficiency without considering the range of objectives.²

Improved efficiency provides the climate for increased responsibility at all levels which is of importance to the overall performance of the organization in overcoming a major limiting factor. The detailed planning of assignments

¹Brown, op. cit., p. 65.

²Granger, op. cit., p. 72.

by the superior for subordinates is a fundamental cause of underaccomplishment. The superior is too familiar with the details of the operation and thus limits the initiative and responsibility of his subordinates.

In managing by objectives, the manager divides the organization's objectives into segments, each of which forms the assignment for one of his principal subordinates. Each subordinate manager is responsible for working out the specific approaches he believes most likely to accomplish his objectives and at the same time contribute to the accomplishment of the most ambitious and far-reaching organizational objectives. The head of each unit assumes increasing responsibility for deciding what his unit must accomplish if the overall objectives are to be reached.¹

This places greater demands on the middle manager. At the same time, however, he is expected to collaborate with his superiors in setting overall objectives, to share with them the responsibility for their accomplishment, and to manage his own department in such a way as to insure that the overall objectives are achieved. The middle manager shares the commitment of the overall organization and in so doing assumes an increased responsibility for its total accomplishments.

¹Robert H. Schaffer, "Managing by Total Objectives," Management Bulletin #52 (New York: American Management Association, 1964), p. 6.

A group whose members are committed to a single set of objectives is less likely to develop systems of rationalization which permit individuals to escape personal responsibility for their own contributions to progress. It is much harder to camouflage failure in an organization which emphasizes total concept than in one well-fractioned where stalled performance can be attributed to many factors that lie outside the control of any department. This MBO approach permits more mature and significant contributions to the progress of their organization. The managers accept this new responsibility, and their work takes an additional zest, color, and efficiency.¹

Better Planning

Ralph J. Cordiner said this of planning:

The prime requisite of management is vision. The hallmark of wisdom is the ability to foresee with at least some clarity and confidence the needs of tomorrow and beyond tomorrow. If we are to achieve in fact a glorious economic future, our leaders in business must free themselves of this year's plans and programs and look at least ten years ahead. The mounting problems and opportunities are making even a decade a short time for planning. More and more we should be planning fifteen or twenty years ahead--an entire business generation.²

Charles Granger wrote this of planning:

Probably the most significant use of

¹Schaffer, ibid., pp. 8-9.

²David W. Ewing, Long Range Planning for Management (New York: Harper and Brothers, 1958), p. 7.

objectives is in planning. Not many organizations can conscientiously answer the question, "What should we be doing, and how much?" But carefully worked out objectives can narrow the target area if not altogether pinpoint it.¹

As with the other functions of management, establishment of objectives and orderly planning are necessary for good organization. Lyndall Urwick has said that lack of design in organization is illogical, cruel, wasteful, and inefficient. It is illogical because good design, or planning, must come first, whether one speaks of engineering or social practice. It is cruel because the main sufferers from a lack of design in organizations are those individuals who work in an undertaking. It is wasteful because unless jobs are clearly put together along lines of functional specialization it is impossible to train new men to succeed to positions as the incumbents are promoted, resign or retire. And it is inefficient because, unless based on principles, management becomes based on personalities, with the resultant rise in organization politics.²

Organizations must all plan to a certain extent from the top down; otherwise personal objectives will not parallel the organization's objectives. Without prior knowledge of company goals, individuals do not have the necessary information to set personal work targets that tie

¹Granger, op. cit., p. 72.

²Lyndall Urwick, The Elements of Administration (New York: Harper and Row Publishers, Inc., 1944), p. 38.

into organization plans. And, unless the organization's purpose is served as expressed in achievable goals, opportunities for reaching personal goals will no longer exist because the organization will no longer exist.¹

Top-down planning, however, often does not reach far enough down into an organization. What is required is some sort of mechanism that will help to integrate organization and personal goals, that will permit and encourage individuals to define the tactics they will use to carry out preselected strategies. Personal work planning and organization planning must coincide, but after the major objectives and strategies have been determined and communicated from the top down. Individual planning can then follow a MBO system analogous to the organization approach--one that is results oriented.²

Because each plan under an MBO system details the steps to be taken to achieve the objective, the superior knows exactly what his subordinates intend to do. He can constructively appraise the soundness of their proposed actions. The superior may be able to contribute recommendations, based on his broader experience, that lead to helpful modifications in the objectives or in the action steps.³

¹Hughes, op. cit., p. 27. ²Ibid.

³John O. Tomb, "A New Way To Manage: Integrated Planning And Control," California Management Review, Vol. V, No. 1, Fall 1962, University of California, pp. 57-62.

Objectives of organizations tend to change as time passes. Such objectives should be formulated for definite time periods and reviewed periodically in light of new developments. Each level of management should develop specific objectives related to its individual responsibilities. These individual objectives should be kept consistent with, and contribute to, the overall objectives. This approach tends to assure unified planning throughout the organization.¹

Economic activity, of necessity, is the commitment of present resources to an unknowable future--a commitment, in other words, to expectations rather than to facts. Therefore, risk is of the essence, and risk-making and risk-taking constitute the basic function of enterprise. Such risks are not only taken by the "general manager," but right through the whole organization by everybody who contributes to it--that is, by every manager and professional specialist. A goal of management science is to enable organizations to take the right risk by providing knowledge and understanding of alternative expectations; by identifying resources and efforts needed for desired results and mobilizing energies for the greatest contribution; and by measuring results against expectations to provide means for early correction

¹Burnard H. Sord and Glenn A. Welsch, Management Planning and Control (Austin: Bureau of Business Research, University of Texas, 1964), pp. 14-15.

of wrong or inadequate decisions. What is needed, of course, is a supply of organized knowledge for the risk-making and risk-taking decisions of business enterprise. Management by objectives provides this required knowledge and furnishes measurable goals to determine if the expectations are being met.¹

Objectives are the key to the planning process. Without objectives, there is nothing to plan toward. The organization would be merely drifting along.

Increased Control

The purpose of controls is to guide the behavior of managers and operators toward predetermined objectives and standards. Both the anticipation of control measurement and the corrective action that follows an unfavorable measurement tend to keep actual performance in line with plans.²

Managerial control is essentially the same basic process as is found in physical, biological, and social systems. Communication, or information transfer, and control occur in the functioning of many systems. The controlling process is often called cybernetics. All types of systems control themselves by a feedback of information disclosing

¹Peter F. Drucker, "Thinking Ahead: Potentials of Management Science," Harvard Business Review, January-February, 1959, pp. 30 and 148.

²William H. Newman and Charles E. Summer, Jr., The Process of Management (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1961), p. 619.

error in accomplishing goals and initiating corrective action. In other words, systems use some of their energy to feed back information that compares performance with standards and objectives.¹

Most progress to a distant goal is made by setting and achieving specific, integrated, short-run objectives along the way to it. It is most difficult otherwise to maintain the long-range energetic action necessary. People respond with ease to a short-run goal, established by themselves or by others, because it may be accomplished comparatively quickly, within their span of attention and will power, and because they can enjoy small successes on the way to the larger one.²

Objectives provide the basis for control. Meaningful control cannot exist without some conception of what results should be. Control has its own special problems--control points will need to be established and there may be stubborn questions of measurement; but more fundamental is a clear understanding of what constitutes good performance. And it is objectives that point the way to desired performance.³

¹Koontz and O'Donnell, op. cit., p. 642.

²Ibid., p. 485.

³W. Newman, C. E. Summer, and E. K. Warren, The Process of Management (2nd ed.; Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1967), p. 474.

There are three characteristics of managerial control: (1) evaluation of progress toward objectives; (2) determination of degree of coordination achieved; and (3) the capability to replan or regulate activities so that the organizational efforts are directed consistently toward desired goals. Management cannot expect the highest type of performance unless the objectives are understood and accepted.¹

The use of MBO fosters overall managerial control at all levels but, at the same time, provides the guiding and stimulating objectives and the flexibility that permits individual managers to stretch their goals while at the same time enhancing the overall organization. It permits strong centralized control of decentralized operations.

Decentralizing includes assigning decision making to lower level managers. A subordinate manager is given considerable leeway in deciding how to perform his work. Unless the common objectives are well understood, this will result in uncertainty, or at least a reduction in contributions to the overall organization. MBO meets the requirements for a proper decentralization and backs it up with proper delegation. Top management will then have a way of evaluating the effectiveness of the manager in pursuing

¹Sord and Welsch, op. cit., p. 49.

the goals of the organization.¹ In addition, it creates the obligation of the manager to complete the job.²

The failure of delegation is usually due to a failure to define responsibilities and duties. The organization fails to develop beyond the "one man show" in which the top manager is the focus of everything. The whole system of MBO creates a commonality of goals and values and a sense of understanding and respect. This is the basic environment required for proper delegation.

With MBO there is more free transmission of information and ideas. The commitment to common objectives encourages each individual to insure that he understands what he receives and that others understand what he sends in order that those overall objectives can be achieved. Likert says that "good communications and high performance go together."³ Improved central control and improved communications also go hand in hand.

Another important element which is closely related to control is budgeting. It is essential that a budget support the organizational objectives. A budget is an operating plan cast in dollar terms. The budget sets forth

¹John Dearden, "Problems in Decentralized Financial Control," Harvard Business Review, May-June, 1961, p. 72.

²Newman and Summer, op. cit., p. 60.

³Rensis Likert, New Patterns of Management (New York: McGraw-Hill Book Co., Inc., 1961), p. 49.

what must be done at what cost. In order for any budget to serve this purpose, there must be clear-cut, well-defined and understood objectives. And it is through the efficient and effective use of these dollar resources that an organization stands to achieve its overall objectives. The measure of actual results and budgeted resources is a primary source of control for management and is of vital interest to stockholders in the organization.

Budgets should be set up to help those in lower management perform their duties and also to help those in top management to evaluate performance and reappraise goals continuously.¹ The budget provides the vehicle for attaining the established organizational objectives.

No planning process can foresee all the contingencies that may develop--either internally or externally--during the period covered by a plan. It is important that unfavorable changes do not result in watering down the objectives agreed upon when plans were developed and approved. And it is equally important that managers do not use these changed conditions as an excuse for failure to achieve planned goals.²

¹David C. D. Rodgers, "Looking Around: New Horizons in Business Policy," Harvard Business Review, March-April, 1960, p. 37.

²John O. Tomb, op. cit., pp. 57-62.

Acceptance of the Human Side

A sense of accomplishment--of meeting objectives--is desired by men at all levels. The captain of a ship takes pride in keeping his vessel on schedule; a telephone operator wants to "get the call through"; a chief engineer works over time to make sure that a newly designed product will not break down under operating conditions; a vice president in charge of sales spends sleepless nights conceiving of ways to improve the market position of his company. Without a recognized objective, none of these people would put forth such effort.¹

The purpose of MBO is to encourage integration, to create a situation in which a subordinate can achieve his own goals best by directing his efforts toward the objectives of the enterprise. It is a deliberate attempt to link improvement in managerial competence with the satisfaction of higher-level ego and self-actualization needs.²

As individuals are involved both in making and carrying out decisions, thus providing them with a real feeling of influencing the direction and manner in which organizational objectives are achieved, more aspects of their abilities are uncovered and more opportunities for personal growth are made evident. This is vital inasmuch as organizations always must be founded on individual growth; and collaterally, in his face-to-face task group, the individual can be an important force in setting the norms of behavior and work output that effect goal

¹Newman and Summer, op. cit., p. 375.

²Douglas McGregor, The Human Side of Enterprise (New York: McGraw-Hill Book Co., Inc., 1960), p. 61.

achievement. The face-to-face work group is the place where the individual can satisfy his needs, influence the organization, and attempt the integration of his goals with those of the group and the organization. The psychological interaction that takes place between the individual and the organization is very important to all concerned.¹

Since organizations are built upon individuals at all levels, it is apparent that individual effectiveness in promoting organizational achievement is greatly enhanced by clear-cut, well-defined objectives which these individuals can understand and accept. This understanding and acceptance creates the climate necessary to establish the individual commitment to achieving organizational goals.

Douglas McGregor had this to say about the inter-relationship of individuals and organizational goals:

The outstanding fact about relationships in the modern industrial organization is that they involve a high degree of interdependence. Not only are subordinates dependent upon those above them in the organization for satisfying their needs and achieving their goals, but managers at every level are dependent upon all those below them for achieving both their own and organizational goals.²

The proper application of the theory of MBO facilitates the smooth functioning of this interdependence of relationships through more closely aligned individual

¹Gordon L. Lippitt, Organization Renewal (New York: Appleton-Century-Crofts Educational Division, Meredith Corporation, 1969), p. 78.

²McGregor, op. cit., p. 23.

and organizational goals and objectives.

In an employee relations program objectives are necessary so that there is consistency and direction and to provide management a means to measure progress or lack of progress. To have programs and functions without defining the overall objectives is merely the acceptance of the gimmicks of employee relations without a thorough understanding of what is expected to be accomplished.¹

The gains from goal setting and its use as the basic management approach to a great variety of problems, according to Blake and Mouton, are:

1. Contributions to organizational profitability.
2. The improvement of intergroup relations between the plant and the headquarters organization to which it reports, and between management and the unions with which it bargains.
3. Strengthening of, awareness of, and making more effective the utilization of team action in various ways.
4. Reduction of interpersonal frictions and increasing the degree of interpersonal understanding among individuals whose work requires close coordination of effort.
5. Contribution toward increasing individual effort and creativity and toward heightening personal commitment to work.

True goals orientation is the significant factor in accomplishing organizational purpose. Much behavioral science experimentation, extensive study with ongoing industrial systems and organizations across different cultures, as well, indicate that when people are understood and agreed with, their behavior becomes more orderly, meaningful and

¹Bambrick, op. cit., p. 16.

purposeful.¹

More Effective Development and Appraisal

One of the more popular trends in performance rating has been to evaluate the results that men achieve, rather than rating the men themselves by their qualities or traits. This represents a laudable attempt to minimize the subjective side of performance rating, and it takes on added respectability from its apparent closeness to Peter Drucker's famous concept of management by objectives.²

One of the most interesting uses of MBO is the area of appraisal and development. Here it provides a means of measuring the true contribution of personnel and aids in identifying potential for advancement and in finding promotable people.

Periodic appraisal of specific results which have been achieved is distinct from the annual or semiannual review. There may be several appraisals within a total review period. The purpose of the appraisal is to improve the efficiency of the subordinate, while the annual review is meant to measure his over-all efficiency at a given time. The targets of each appraisal might be concentrated on only one or two functions of the manager, whereas the annual review evaluates his over-all proficiency.³

¹Robert R. Blake and Jane S. Mouton, The Managerial Grid (Houston: Gulf Publishing Co., 1964), pp. 150 and 179.

²Saul W. Gellerman, Management by Motivation (New York: American Management Association, Inc., 1968), p. 139.

³Koontz and O'Donnell, op. cit., pp. 490-491.

Successive periodic appraisals help the superior complete the annual review. Since the periodic appraisals show up the subordinate's weakest areas, for purposes of both appraisal and review, these will receive close attention. The review, under these circumstances, will not tend to overrate or underrate the subordinate and therefore will become a more reliable document.¹

Management by objectives and appraisal by the results implies a reliance upon subordinates to accomplish the tasks of cooperative enterprise and an acceptance of the principle that men respond better to the achievement of a few short-range measurable goals than to a long-range target. The very purpose of cooperative enterprise is to accomplish goals beyond the capability of a single individual, and this requires that the joint effort be well integrated.²

In MBO and appraisal by results there are certain negative as well as positive advantages. The negative advantages arise through the avoidance of error inherent in other techniques. MBO avoids vagueness, a serious deficiency in setting goals or trying to appraise performance, because agreed-upon verifiable goals replace the indeterminate and unverifiable. Communication is clear and complete with no basis for misunderstanding.³ MBO also

¹Ibid. ²Ibid., p. 91. ³Ibid.

avoids subjective evaluation. Personality plays a less important part in the evaluation. Superior and subordinate approach the process on firm ground. Neither may like the results, but each is confident of their accuracy.¹

The positive advantages which can be enjoyed when MBO and appraisal by results are practiced benefit both the organization and its personnel. Since positive effort is directed at the correction of deficiencies in a continuous manner, organizations efficiency can only improve. In addition, the subordinate knows exactly where he stands with his superior and his progress is recorded as each appraisal period is reached. Since proficiency should be the goal of every manager, it is indispensable for promotion. The fact that the manager knows he is being made ready for promotion can give him assurance and satisfaction.²

The subordinate is provided with a technique for use in improving the performance of his subordinates. The process is educational for any subordinate. Each manager may gradually develop the techniques which work best for him. He is then in a position to develop his own subordinates with skill.³

¹Arch Patton, "How To Appraise Executive Performance," Harvard Business Review, January-February, 1960, pp. 65 and 70.

²Koontz and O'Donnell, op. cit., p. 492.

³Ibid., p. 493.

Management by objectives creates the climate for the objective criteria to facilitate sound appraisal and evaluation, and establishes the framework for the ambitious, challenging, and stimulating objectives which stretch executive thinking. This provides for the greatest individual development and provides the best qualifications for higher leadership positions in the organization in the future.

Better Decisions

Of the various kinds of planning, setting objectives is the most crucial. With improper objectives, even the most effective action is to no avail. Napoleon provided the French people with dramatic leadership and military genius, but his objectives were¹ so perverted that he led France to disaster.

Decision making has been defined as the actual selection of a course of action from alternatives. The first step of decision making is the development of the alternatives, assuming known goals and clear planning premises. In every course of action, alternatives exist, and effective planning involves a search for the alternative representing the best path to a desired goal. The most favorable alternative can be selected more effectively and efficiently the more an individual can recognize and solve for those factors that are limiting or critical to the

¹Newman and Summer, op. cit., p. 373.

attainment of a desired goal.¹

Peter Drucker expressed the importance of decisions this way:

We know what we need: a systematic supply of organized knowledge for the risk-making and risk-taking decisions of the business enterprise in our complex and rapidly changing technology, economy, and society; tools for the measurement of expectations and results; effective means for communication among the many functional and professional specialists--each with his own knowledge, his own logic, and his own language--whose combined efforts are needed to make the right business decisions, to make them effective, and to produce results.²

Dynamic objectives for an organization help provide the cohesive force necessary to draw all efforts of the organization toward the desired results, and at the same time provide the flexibility necessary to meet the changing demands of the time. By looking far enough into the future, the objectives provide the required lead time so that decisions can be made from a choice of alternatives rather than mere reactions or crash programs to try to meet the new challenge. This provides the organization with the opportunity to approach its maximum potential.

This system of MBO allows the organization to decide what opportunities it wants to pursue, and what risks it is willing to accept. Then the organization can

¹Koontz and O'Donnell, op. cit., pp. 152-153.

²Peter F. Drucker, "Thinking Ahead: Potentials of Management Science," op. cit., p. 148.

measure itself against these objectives to determine if changes are necessary. This decision can be made in sufficient time to prevent extreme losses or the destruction of a whole program.

Drucker says again:

The end product of the manager's work are decisions and actions rather than knowledge and insight. The crucial decision is the allocation of efforts. And no matter how painful, one rule should be adhered to: in allocating resources, especially human resources of high potential, the needs of those areas which offer great promise must be satisfied to the fullest extent possible.¹

Management by objectives provides the direction, commonality, alternatives and measurement necessary to evaluate progress toward the desired results. This assures the manager the timely information necessary for the proper decision at the proper time.

¹Peter F. Drucker, "Managing for Business Effectiveness," Harvard Business Review, May-June, 1963, p. 60.

CHAPTER IV

LIMITATIONS OF MANAGEMENT BY OBJECTIVES

Wisdom is stored up in the form of a great number of ethical and other principles and maxims which warn us to consider certain factors or proceed at our own peril. These principles are no guarantee of success. Often they are contradictory maxims: "Look before you leap" but "He who hesitates is lost." Yet both of these maxims serve to remind us that the speed with which we reach a decision may be an important factor. This suggests that we consider whether any action on our part may not subsequently redound to our disadvantage.¹

This statement sets the background for the discussion of the limitations to be discussed in this chapter. The possibility that the improper use of objectives may be worse than no objectives at all must also be considered. With this general background in mind the major areas of limitations or problems in the use of management by objectives are:

Difficulty of specifying ^{measurable} objectives

Problem of lack of written objectives

The hierarchy of objectives

Conflicting objectives

¹D. W. Miller and M. K. Starr, Executive Decisions and Operations Research (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1960), pp. 33-47.

Problems of appraisals

Problems in general

The Difficulty in Specifying the Objectives

Much of the confusion about the application of the MBO doctrine stems from the fact that, although its underlying theory is appealingly simple, its practical application is appallingly complex. On the one hand, the idea that most men are motivated by the challenge of having to make their own day-to-day operating decisions is amply supported by both research and common experience. On the other hand, the selection of specific objectives can be fraught with danger.¹

Much of the confusion which exists over objectives can be alleviated by viewing objectives as a whole framework or complex of aims or ends of action which nevertheless contain other guiding considerations. In this framework it is not helpful to think there is one overriding objective, such as profit, since we must also concede in the next breath that another objective is to stay within the law. Profit may be the factor to maximize in a particular case, but it cannot be viewed as the sole objective.² Never does a job, department, or company have a single objective. It may have one dominant mission, but other goals will also

¹Gellerman, op. cit., p. 208.

²Granger, op. cit., p. 65.

demand recognition.¹

Another deficiency in looking for objectives is that the service aspect of the organization is often pushed into the background. Thus, the real purpose of an organization, such as creating customers, can be lost. The primary service objectives of a particular business organization are the economic values which it provides the customer. The customer in this respect is the ultimate boss. Poor management results in poor customer service.²

In managing an organization it is necessary to balance a variety of needs and goals. There are many objectives, and they all require detailed definition and analysis if they are to be useful separately and contribute to the accomplishment of the whole organization.

The need for objectives can be very obvious, but when it comes to specifying these objectives it can be very difficult. The specifying of appropriate objectives requires a detailed investigation of individual job responsibilities, takes a great deal of time, and necessitates highly creative thinking.

Closely related to difficulty in specifying objectives is the problem of disagreements between superior and subordinate on the appropriateness of the objective.

¹Newman, Summer, and Warren, op. cit., p. 477.

²Ralph C. Davis, The Fundamentals of Top Management (New York: Harper and Bros., 1951), pp. 98 and 452.

What happens when the subordinate does not accept the objective passed down by his superior?

The obvious answer is that the overall objectives of the company must prevail. However, there may be substantial differences and particularly in dealing with labor unions. The solution is not easy or clear-cut.

The areas must be identified where participative management is possible, and the appropriate people encouraged to participate in the formulation of objectives. However, "participation is an aid to leadership and not a subordinate."¹

One writer has this to say:

Can management hope to create and maintain a high level of satisfaction for all people in the company? The answer seems to be yes--provided the goal is envisaged realistically. Complete satisfaction is not possible. If every last detail were to everyone's liking, there would not be much spirit in the individuals.²

The Problems Created by Lack of Written Objectives

Objectives that are worth the name do exactly what most people dislike doing: they clearly commit an organization to a relatively few courses of action and there is no doubt about the expected outcome. It is surprising to see how different people interpret what may seem to be very simple,

¹George H. Roderick, "How Managers Can Do Better," Armed Forces Management, February, 1961, p. 44.

²Robert Saltonstall, "What Employees Want From Their Work," How Successful Executives Handle People (Boston: President and Fellows of Harvard College, 1951-1960), p. 52.

straightforward, and obvious statements of objectives. This is why objectives must be quantitative. . . . Objectives must be written to serve their ultimate function. Committing thought to paper helps force out all fluff and fuzziness normally associated with thoughts on a different subject, and it furthermore facilitates fruitful conversion and ultimate agreement on objectives.¹

conversation?

The lack of written objectives creates several problems. One of these is the lack of understanding of the objectives. If the objectives are going to serve their purpose, they must be understood. The investment in time and effort to write out objectives provides a good return in eliminating any misunderstanding.

The lack of written objectives allows the manager to formulate his own ideas of them and to select personal, parochial, or short-range gains to the detriment of the organization. It also leads to general disagreement as to the framework of the objectives. Some organizations use catchwords or phrases in place of clearly stated objectives. In order to be effective objectives must be stated in a precise and meaningful manner and this requires that they be written.

Another problem created by wrong, insufficient, or outdated objectives, which is an outgrowth of not having written them in the first place, is a crisis or drive to correct deficiencies in one area to the neglect of others.

¹John McL. Reed, "Some Thoughts on Business Objectives," Advanced Management Journal, October, 1964, pp. 75-76.

In this case the objectives are lost and the decisions become emotional, not sound or logical.¹

The lack of written objectives tends to destroy the balance of long-range and short-range objectives by focusing attention on the present to the detriment of the future of the organization. Good strategic planning must have a firm base of long-range objectives.

Also, along this same line of thought, effective objectives must be dynamic and not static. If they are static, they fall behind the rapidly changing business world and are useless or even destructive. In order to make them dynamic, they must be reviewed frequently at all levels to insure their continual validity. This can only be done if they are carefully spelled out and written so that they are in fact available for review.

The lack of written objectives seriously hampers the universal understanding that is necessary for their effective utilization, and can cause deleterious action or results.

The Hierarchy of Objectives

The process of assigning a part of a major mission to a particular department and then further subdividing the assignment among sections and individuals creates a hierarchy of objectives. The goals of each sub-unit contribute to the aims of

¹Drucker, The Practice of Management, op. cit., pp. 127-128.

the larger unit of which it is a part.¹

One of the problems created by the hierarchy of objectives is that even though a company has clarified its broad, long-range objectives, they may have little impact on the behavior and thinking of lower level operators and executives. These overall objectives need to be translated into specific goals that are meaningful to people in their daily work.² In other words, objectives which are appropriate at one level of an organization are not necessarily appropriate at another level.

Another difficulty is that there are certain objectives over which a manager has little or no control because of the restrictions or requirements levied by superiors, and he must pass these to subordinates unchanged. The individual manager must identify areas in which participative setting of objectives is appropriate. These areas must be considered both from the nature of the area and the timing of the action.³

Granger says: "There are objectives within objectives, within objectives. They all require painstaking definition and analysis if they are to be useful separately and profitable as a whole."⁴ This sums up the problem

¹Newman and Summer, op. cit., p. 379.

²Ibid., p. 378. ³Roderick, op. cit., p. 44.

⁴Granger, op. cit., p. 63.

involved in establishing the proper objectives within the framework of the hierarchy of objectives.¹

Conflicting Objectives

A major reason why conflict develops in organizations is that people do not understand their assignment and that of their co-workers. No matter how well conceived an organization structure, people must understand it to make it work. Understanding is aided materially by proper use of organization charts, accurate job descriptions, the spelling out of authority and informational relationships, and the introduction of specific goals to breathe life into positions.²

When there is no conflict between objectives, the individual can proceed to solve his decision problems separately. As long as the action taken to achieve one objective is independent of the other, he can do this. However, when objectives are dependent, the optimization of one can result in lower degree of attainment for all others.³

A related problem is interdependence of goals and the need to retain past gains as future gains are sought. The essence of the problem is the situation in which an output goal is attained at the expense of credit losses or loss in quality.⁴

Unless previous gains are "pegged" and are not

¹Ibid., p. 65.

²Koontz and O'Donnell, op. cit., pp. 417-418.

³Millër and Starr, op. cit., p. 62.

⁴Koontz and O'Donnell, op. cit., p. 493.

permitted to slip, MBO could degenerate into a net balance of gains and losses. From the point of view of efficiency, nothing would be gained other than meeting new challenges.¹

Keeping the emphasis on diverse objectives in balance is no simple task. A common difficulty is that the tangible, measurable ends receive undue attention. Another source of trouble is that immediate problems tend to take precedence over long-run issues. Then there is the case of one's own work versus teamwork which may also pose a balancing problem. We all know friendly persons who are so ready to help with another man's problems that they have difficulty accomplishing their own objectives.²

Every manager must frequently reappraise the emphasis he gives to his various objectives. This job is like that of a captain of a large ship who is continually changing his speed and direction in relation to his present position, tides, winds, and other conditions.³

To create the best climate for effective policy execution, top management must continuously insure that the personal goals and objectives of each individual are brought clearly into focus with the goals and objectives that make for a healthy and progressive organization. In order to accomplish this, organization policy must be removed from the realm of the mysterious and sacred, confined

¹Ibid., p. 494.

²Newman, Summer, and Warren, op. cit., p. 481.

³Ibid., p. 482.

only to the highest executive level.¹

Problems of Appraisals

All performance measurements have certain limitations. Even with the best of intentions, it is difficult to be entirely objective when rating the performance of another person. MBO and results appraisal, of course, is not free from difficulties either. To begin with, there is the inescapable and not-so-easily-solved problem of exactly which results to measure. In many jobs--and especially in managerial jobs--results are compounded of circumstances, luck, and many people's efforts; and the contribution of any particular person to those results could be anything from minuscule to decisive.²

The man whose performance is measured by results may be credited with other people's success or stigmatized for their failures, unless it can be shown that the results were his and his alone. Another problem is that the particular results selected for measurement may represent only a part of the job, and not necessarily a large or vital part.³

Basing ratings on events rather than on judgments springs from the need for a stable yardstick. We can usually assume that when a yardstick has to be interpreted,

¹Gordy E. Loftin, "Make Your Policies Work For You," Advanced Management Journal, January, 1964, pp. 49-51.

²Gellerman, op. cit., p. 139.

³Ibid.

even competent interpreters will disagree on the measurements they have obtained. Thus we are never sure whether such a yardstick has been read accurately or inaccurately, even when we use consensus or some other way of reducing stretchability. Not all the ambiguity is eliminated when we switch from judging traits to asking whether an event has occurred.¹

The more complex the task and the more flexible a man must be in it, the less any fixed statement of job elements will fit what he does. Thus, the higher a man rises in an organization and the more varied and subtle his work, the more difficult it is to pin down objectives that represent more than a fraction of his effort.²

With preestablished goals and descriptions, little weight can be given to the areas of discretion open to the individual, but not incorporated into his job description or objectives. The appraisal should consider the total situation in which the superior and subordinate are operating.³

Another difficulty is that the existence and reliability of standards vary with the several functional activities. A balance sheet can be evaluated in terms of

¹Ibid.

²Harry Levinson, "Management by Whose Objectives," Harvard Business Review, July-August, 1970, p. 126.

³Ibid., pp. 126-127.

timeliness and accuracy, but what should it cost and what should it portray? The end products of an industrial relations department may include industrial peace, but what are the standards of cost and quality? If these really cannot be determined, how can the responsible managers be appraised?¹

Then there is the difficulty in the area of comparative appraisals. In terms of the end product of a manager, standards may exist and a high degree of reliability can be assigned to an appraisal of him. But similar accurate standards may not exist against which the end products of all personnel can be compared. It becomes clear that while the logic of appraising managers on the basis of accomplishment is unassailable, it does leave difficult operational problems unsolved.²

One pitfall concerns the amount of time which will be given to the process of appraisal by results. Managers are busy men, much involved in daily problems, and they may put off MBO. This technique requires a thorough respect for the manager's functions, farsightedness, and will power, qualities which are not common. However, failure to identify and correct causes of poor performance can be the greatest danger to success in management.³

¹Koontz and O'Donnell, op. cit., p. 500.

²Ibid. ³Ibid., p. 493.

It is not too much to say that these problems will continue to impede the whole process of evaluating managers for some time to come. Managers simply must wrestle with them and follow a pragmatic solution until such time as new knowledge comes to their aid.¹

Problems in General

Reviewing existing literature reveals that in most instances MBO is implemented on the basis of its theoretical soundness and feasibility. There have been few research studies which determine the impact of MBO upon managers. There are a few recent studies which reveal some of the difficulties involved with MBO.²

One study found that many participants perceived the MBO program as being a weak incentive for improving the performance level of participants. They had changed their attitudes about the program after it had been in operation over a four-year period of time. Their reasons for changing their opinions were basically: (1) managers reported that the program was used as a whip; (2) the program fails to reach the lower managerial levels; (3) the program increased the amount of paperwork; (4) there is an overemphasis placed on production; (5) the program failed to provide adequate incentives to improve performance.³

¹Ibid., p. 501.

²John M. Ivancevich, James H. Donnelly, and Herbert L. Lyon, "A Study of the Impact of Management by Objectives on Perceived Need Satisfaction," Personnel Psychology, Spring 1970, p. 141.

³Ibid.

In another study the major complaint was that too much time was spent on counseling with subordinates. Another criticism stemmed from beliefs that the superiors often demanded stated goals in all areas and this request is impossible to meet. The major complaints of the middle- and top-level respondents were focused upon the overemphasis placed on counseling with subordinates.¹

It has also been found that in actual practice, too much emphasis is often placed on implementing a preordained program on what ought to be done, rather than how the process can best meet the changing needs of managers. For MBO to be truly effective, attention must be directed away from the program approach toward a more flexible, pragmatic one; otherwise, an organization's efforts are likely to be self-defeating.²

Often a man's most powerful driving force is comprised of his needs, wishes, and personal aspirations, combined with the compelling wish to look good in his own eyes for meeting those deeply held personal goals. If this is true, then management by objectives should begin with his objectives.³

Some may say that personal goals are his business.

¹Ibid., pp. 147-148.

²John B. Lasagna, "Make Your MBO Pragmatic," Harvard Business Review, November-December, 1971, p. 64.

³Levinson, op. cit., p. 129.

The organization has other business and must assume that the man is interested in working in that business rather than his own. Everyone is always working toward meeting his psychological needs. Anyone who thinks otherwise, and who believes such powerful internal forces can be successfully disregarded or bought off for long, is deluding himself.¹

The findings of various studies and information obtained through structured interviews suggest a number of conclusions:

The need satisfaction of participants is influenced by the MBO program. A possible strategy to improve perceived need-satisfaction at lower level management would be to involve the top level management cadre in the MBO program.

More attention must be given to the method of implementation than is suggested in current literature. *

The exact number of feedback sessions to employ in order to optimize the participants contributions must be determined on an individual firm basis.

The prospective user of MBO should recognize some of the problem areas which occur when this approach is installed. The proponents of MBO have a tendency to sweep aside the negative reactions of participants. *

The nature of MBO requires that constant review is needed to determine the effects of the program.²

The limitations or problems in the use of MBO must be considered by its users, but by careful thought and

¹Ibid.

²Ivancevich, et al., op. cit., p. 149.

thorough preparation of clear, precise, and easily understandable objectives they can be minimized in order to gain the major advantages of this concept of management.

No man can tell beforehand whether a policy he sets or goals he envisions for himself and his organization are wise and right. Time and events only will prove the soundness of guesses, estimates, and hopes.¹

¹Edward Wisnewskey, "Factors in Owner-Management Development," Advanced Management, January, 1960, p. 6.

CHAPTER V

INSTALLING THE SYSTEM

Background

Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business.¹

Management by objectives is not something that can be plugged in and then left to run itself. The installation of MBO takes time and dedicated effort. More important, its success requires the unqualified and continuing support of top management. Management commitment is probably the most critical requirement for the success of the development effort. For if development efforts do not involve consideration of the developmental climate and if such efforts do not take place through decisions of top management, development is left to so many individual peculiarities that an over-all change in performance cannot be predicted.² However, with intelligent installation and use, MBO injects a dynamic element into management behavior.³

¹Drucker, The Practice of Management, op. cit., p. 63.

²Tomb, op. cit., p. 132.

³Robert J. House, "A Commitment Approach to Management Development," California Management Review, University

An organization is people, and the fundamental role is the ease of coordination. "Coordination links the economy of individual effort and the strength of combined effort."¹ This coordination is facilitated by:

A clear statement of missions

Spelling out duties and responsibilities of each part in order to avoid duplication or gaps

The fewest levels of hierarchy

The span of control

Flexibility, the capability for growth or reasonable contraction without drastic change.²

One writer has stated:

In setting objectives you should see that each of your people is able to stand back and see his job as part of the total undertaking and gain stimulating incentive from this knowledge. It is a well-known characteristic that an American who is a member of an organization feels a need to know why he is doing what and the what and why of his organization's activities.³

The nature of objectives will vary somewhat with the type and mission of the organization. Objectives must recognize, be consistent with, and contribute to those of the parent organization and they must be stated in measurable terms. Experience and research reveal that organizational

of California, Spring, 1965, p. 28.

¹John W. Cave, "Checklist for Managers," Armed Forces Management, October, 1959, p. 24.

²Ibid.

³Roderick, op. cit., p. 44.

objectives are of limited value unless accepted by the individuals responsible for their accomplishment.

Participation in establishing organizational objectives by the personnel responsible for achieving them will contribute materially to acceptance of these objectives and result in favorable attitudes toward the leader. The manager will have sound objectives, and his people will work harder and more cooperatively to achieve them. The entire team will be working toward commonly understood goals which it has become morally committed to attain.¹

In putting MBO to work, the concept must take root in the organization, not as an abstract idea, but as a practical operating principle, to achieve results. Begin with the organizational results that have to be accomplished which require some new ways of intermeshing a variety of contributions. The goals should be vital and urgent. Schaffer says that there are two basic steps to this implementation:

1. An assessment of readiness--the real potential and latent energy as determined by a management consultant or skilled internal staff man.

2. Framing the demands--confronting the group with a clear description of the needs to which they must respond and conveying the top executive's expectations of performance. A written "charge" or assignment to translate demands into concrete goals and workable

¹Ibid.



plans of action.¹

In launching MBO the mechanics will vary from situation to situation, but common elements are usually present as was previously discussed in Chapter II.

The information presented thus far in this chapter will serve as background for the coverage of a detailed presentation of a method of installing MBO. This is the method presented by George S. Odiorne.²

The Necessary Conditions

As previously stated, the primary condition for the successful installation of MBO is the support, endorsement, or permission of the top executive involved. The installation will then normally proceed through four phases:

1. The familiarization of the top executive and his key executives with the system and how it works.
2. The programming of measures of organization performance by the top executive and his subordinates.
3. The goal-setting methods are then extended down through the organization to the first-line supervisory level through a series of meetings.
4. Ambiguous policies are clarified, and the necessary changes are made in such areas as the

¹Schaffer, op. cit., pp. 9-10.

²Odiorne, Management by Objectives, op. cit., pp. 68-79.

appraisal system, the salary and bonus procedures, and the delegation of responsibilities.

The Stages of Installation for the Individual Manager

There are two major stages in the installation process:

1. The setting of goals with subordinates at the beginning of a time period.
2. The measuring of results against goals at the end of the time period.

There is a continuous evaluation of this performance during the period involved to permit any modifications which may be required.

Setting Goals with Subordinates

Odiorne says that this is accomplished in four steps:

1. Identify the common goals of the whole organizational unit for the coming period stated in terms of the measures of organization performance to be applied.
2. Clarify the working organization chart--the actual organization of the group involved.
3. Set objectives with each man individually. The way to accomplish this is:

(a) Ask each subordinate to make notes on what objectives he has in mind and set a date to discuss them. There are normally four categories of goals:

routine duties, problem-solving, creative goals, and personal goals.

(b) Before the meeting, list some of the objectives you would like to see him include.

(c) In the conference, review the man's own objectives in detail, then offer your own suggestions or changes.

(d) Make two copies of the final draft of his objectives--one for him and one for yourself.

(e) Working from the final agreement, ask him what you can do to help him accomplish his targets. Note his suggestions, keep them with your copy, and include them in your objectives, if pertinent.

4. During the period, check each subordinate's goals as specified milestones are reached:

(a) Is he meeting his targets?

(b) Should his targets be amended?

(c) Are you delivering on your part in helping him?

(d) Use the jointly agreed-upon goals as a tool for coaching, developing, and improving each man's performance on a continuous basis.

Measuring Results Against Goals

This procedure is accomplished in three steps:

1. Ask each subordinate to prepare a brief statement

of his accomplishments compared with his targets and the reasons for any variances.

2. Set a date to go over this report in detail. Search for the causes of the variances, and ask yourself:

(a) Was it your fault?

(b) Was it some failure on his part?

(c) Was it beyond anyone's control?

Then get his agreement on just how good his performance was and where he fell down.

3. Set the stage for establishing the subordinate's performance goals for the coming period.

Common goals must be clarified before individual goals because not all organization goals will be divisible into the personal goals of managers at lower levels. This defines the boundaries within which subordinates can legitimately propose goals. The establishment of measures of organization performance should precede goal-setting meetings between managers and subordinates.

The Manager and Management by Objectives

Schaffer says that management by objectives proposes a fundamental shift in thinking:

The president no longer tries to add up an end result from what he thinks he can get each of his units to accomplish. Instead, each unit designs its accomplishments in terms of overall results to be achieved. The chief executive refuses to negotiate individually with each executive for

individual commitment to fractional goals. He asks associates to sit with him and help him set--and reach--the most ambitious and far-reaching set of overall goals possible.¹

MBO is time-consuming and according to Odiorne:

This use of time on the manager's part is an important aspect of management by objectives, and depends heavily on three points of emphasis:

1. Management by objectives is a system of managing, not an addition to the manager's job.

2. The manager who adopts management by objectives as a system of managing must plan to drop some of his more time-consuming hobbies. This is another way of saying that the manager must delegate, or relinquish personal control of certain activities that he has hitherto personally manipulated or overseen in too much detail.

3. The system of management by objectives entails a behavior change on the part of both the superior and subordinate. The subordinate moves in a more results-oriented fashion because he knows what his goals are. His superior provides the instruction, help, and behavior that will help him succeed.²

There are several things a manager should not do in order to obtain the desired results, according to Odiorne:

1. Do not get involved in personality discussions.

2. Do not discuss salary and performance at the same meeting.

3. Do not discuss potential and promotability at the same time you are working on the man's

¹Schaffer, op. cit., p. 6.

²Odiorne, Management by Objectives, op. cit., pp. 77-79.

responsibilities and results.

4. Do not hold a man accountable for things that are totally beyond his control.

5. Do not dwell on isolated incidents at the expense of overall results.

6. Do not make up your mind about the results a man has achieved until you have had your discussion with him.

7. Do not nag.¹

Operating people, the president, and line executives, must establish objectives if they are going to have to live with them. However, in large organizations it is useful, if not imperative, to establish a staff function as the focal point for getting objectives established and the related planning accomplished. The psychology of the head man approving and signing the document containing the objectives is most important. The objectives must not be a straight-jacket, and the power of the president cannot be restricted by them. Written, thoughtfully determined and approved objectives provide a means for more effective use of the president's power.²

Charles Granger has set forth the following six items as the minimum tests for objectives:

¹Ibid., p. 79.

²Reed, op. cit., pp. 76-77.

1. It is not necessary to begin with the broad, grand design of the enterprise, but all objectives in the hierarchy should be consistent with it.
2. Objectives should make the people in the enterprise reach a bit.
3. They should be realistic in terms of the internal resources of the enterprise and the external opportunities, threats, and constraints.
4. They should take into account the creative conception of a range of alternatives and the relative effectiveness and cost of each.
5. They should be known to each person so that he understands the goals of his own work and how they relate to the broader objectives of the total enterprise.
6. They should be periodically reconsidered and redefined, not only to take account of changing conditions, but for the salutary effect of rethinking the aims of organizational activities.¹

As Granger says:

Objectives, properly developed and applied, can tell us in what paths, new and old, our total undertakings should be moving. They can guide both the day-to-day activities and the personal development of individuals in an organization. If we in management can clarify the objectives of our undertakings by even a small amount, we can greatly increase the effectiveness and efficiency of our business.²

¹Granger, op. cit., p. 74.

²Ibid.

CHAPTER VI

UNITED STATES NAVY APPLICATIONS

Applicability

Navy organizations vary from combat units to non-combat units, afloat units to ashore units, and from entirely military to completely civil service employees. The management ranges from autocratic to democratic in nature. They are sometimes bureaucratic and sometimes not. However, all Navy organizations are concerned with the universal management principles such as planning, directing, and controlling. And while the Navy has not in the past been a leader in promoting "good human relations," times are changing. But then, Peter Drucker expressed it this way: An organization belongs on the sick list when "good human relations" become more important than performance and achievement.¹

Rensis Likert expressed the other side:

The trend in America generally, in our schools, in our homes and in our communities is toward giving the individual greater freedom and

¹Earl R. Zack, "An Integrated Approach to Management Development," Personnel, Pace College, New York City, August, 1961, p. 51.

initiative. There are fewer direct, unexplained orders in schools and homes, and youngsters are participating increasingly in decisions which affect them. These fundamental changes in American society create expectations¹ among employees as to how they should be treated.

Some of the most important principles and practices of modern business management may be traced to military organizations. Except for the Church, no other form of organization has been forced, by the problem of managing large groups, to develop organization principles.²

Although military organization remained fairly simple until recent times, being limited largely to refinements of authority relationships, they have, over the centuries, gradually improved techniques of direction. History is replete with examples of military leaders who communicated their plans and objectives to their followers, thereby developing a doctrine of unity in the organization. Even as autocratic a commander as Napoleon supplemented his power to command with a careful explanation of the purposes of his orders.³

Navy organizations like military organizations in general, are involved in managing and applying the universal principles of management. They could therefore, find application for the MBO concept. Military and church

¹George S. Odiorne, How Managers Make Things Happen (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1961), p. 61.

²Koontz and O'Donnell, op. cit., p. 19.

³Ibid.

officials frequently prefer to use the word "mission" instead of "objective." A military commander, for instance, may be assigned a mission of protecting a city or a coastline; the mission of a church-worker may be to reduce juvenile delinquency in a given neighborhood. A mission is an objective that has been psychologically accepted by the doer; he is dedicated to its fulfillment. When we speak of a mission, then, we imply moral compulsion to achieve the result. Ideally, in the Navy or in business, all well-thought-out objectives should be accepted as missions, and many are. How to secure such dedication is a recurring issue and possibly a job for MBO.¹

Luther Gulick, in summing up military experience in World War II, said the following about military missions:

On this point military administration taught us a real lesson. With minor exceptions, no activity was initiated by the military without a clear definition, a definition cast in terms of purpose, timing and resources; no organizational unit set up without a statement of its mission. The success or failure of any man or any venture was measured against this specific statement of objectives and methods. In administrators who have a clearly defined mission, and thus the beginnings of authority commensurate with their responsibility.²

As previously mentioned, the Navy is concerned with planning, directing, and controlling, which are associated

¹Newman, Summer, and Warren, op. cit., p. 468.

²Luther Gulick, Administrative Reflections From World War II (University: University of Alabama Press, 1948), p. 77.

with MBO. The planning involves selecting the objectives and the policies, programs, and procedures for achieving them--either for the entire organization or for any organized part thereof. Planning is, of course, decision making, since it involves selecting among alternatives.¹

John O. Tomb said this of planning:

One way to make planning vital and effective is to let line officers make the plans they must fulfill. This not only results in more realistic goals, but in a positive, workable program of action, with₂room for improvisation in case of emergencies.²

Directing involves guiding and supervising subordinates. Although the concept is very simple, the methods of directing may be of extraordinary complexity. The superior must inculcate in his subordinates a keen appreciation of traditions, history, objectives, and policies. The superior has a continuing responsibility for clarifying the assignments of subordinates, guiding them toward improved performance, and motivating them to work with zeal and confidence.³

Control seeks to compel events to conform to plans. Thus it measures performance, corrects negative deviations, and assures the accomplishment of plans. Planning must precede control but plans are not self-achieving. Carrying

¹Koontz and O'Donnell, op. cit., p. 48.

²Tomb, op. cit., p. 132.

³Koontz and O'Donnell, op. cit., p. 49.

out plans means prescribing the activities of individuals at designated times. The plan is a guide for timely use of resources to accomplish specific goals.¹

Organizations, including the military, are often bureaucratic in nature. Koontz and O'Donnell say that one of the most convincing evidences of bureaucracy, whether in business or government, is the existence of complicated procedures to avoid mistakes. They say these procedures, which tend to become obsolete in established organizations, seriously block the institution of new plans and the development of new ideas. Progressive planning requires an environment of change, with some reasonable degree of freedom and willingness to assume the risks of mistakes; this is prevented in an enterprise bound by the strait jacket of policy and procedural inflexibilities.²

However, bureaucracy as used by Max Weber, does not have the infamous meaning that it has in general use. It has a technical meaning and identifies numerous basic characteristics of a formal model. The characteristics he identified included regular activities aimed at organizational goals, distributed as fixed official duties. The organization would follow the principle of hierarchy with operations governed by a consistent system of abstract rules that are applied to individual cases. The

¹Ibid., p. 50.

²Ibid., p. 215.

organization would be operated as a formalistic impersonality without emotion. Employment would be based on technical qualifications and not subject to arbitrary appraisal or termination. He believed bureaucracy would attain the highest degree of efficiency. His system sounds a lot like MBO doesn't it?¹

Which Approach to Take

The preamble of our Constitution states:

We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

Here we have a clear statement of the objectives of our society, and no institution, not even Congress or the Presidency, is expected to adopt objectives which are at variance with it. Similarly, all other organizations should have objectives which are harmonious with and supportive to national objectives.²

The specific goals which are deemed proper and appropriate for the federal government to be seeking will somehow have to be selected in the light of a comprehensive evaluation of national needs and objectives. It is a

¹Joseph L. Massie, Essentials of Management (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1971). p. 71.

²Koontz and O'Donnell, op. cit., p. 109.

continual operation in each major department and agency. Specific alternative programs which may help to achieve the broad national goals and objectives are also examined. The ones that appear to be most promising, given the various constraints under which the government operates, are selected.¹

How then might the Navy operate under the MBO concept and in line with the national objectives? Drucker, Odiorne, McGregor, and Likert all use the term "management by objectives" in slightly different terms. The general idea of gaining commitment of individuals to specific performance results is the same, but which approach would be best for the Navy to take?

Drucker said objectives should always derive from the goals of the business enterprise but with each manager developing and setting the objectives for his unit himself. This would make it possible for a manager to control his own performance or to have self-control instead of management by domination. Drucker's idea would substitute control from inside for control from outside.²

Odiorne's definition stresses the manager and his

¹Murray L. Weidenbaum, "Program Budgeting--Applying Economic Analysis to Government Expenditure Decisions," Planning Programming Budgeting: A Systems Approach to Management, ed. by Fremont J. Lyden and Ernest G. Miller (Chicago: Markham Publishing Company, 1967), p. 170.

²Drucker, The Practice of Management, op. cit., pp. 121-136.

superior. The superior and the subordinate manager jointly define the organizational common goals and each individual's major areas of responsibility. The individual's responsibilities are in terms of the results expected of him and are used as measures and guides for operating the unit and assessing the contribution of its members.¹

McGregor's strategy was a special use of the conventional conception of MBO. His strategy of management by integration and self-control has a purpose to encourage integration, to create a situation in which a subordinate can achieve his own goals best by directing his efforts toward the objectives of the enterprise. It is a deliberate attempt to link improvement to managerial competence with the satisfaction of higher-level ego and self-actualization needs. McGregor said MBO does not involve abdication of management, the absence of leadership, the lowering of standards or other characteristics associated with a soft approach under Theory X.²

Likert saw MBO as a principle of supportive relationships. The principle of supportive relationships points to a dimension essential for the success of every organization, namely, that the mission of the organization be seen by its members as genuinely important. To be

¹Reddin, op. cit., p. 12.

²McGregor, op. cit., p. 56.

highly motivated, each member of the organization must feel that the organization's objectives are of significance and that his own particular task contributes in an indispensable manner to the organization's achievement of its objectives.¹

Likert's concept was that each manager, working with his subordinates as a team would set objectives for the next period ahead. The manager and his superior would review the results at the end of each period. As the results were reviewed, new objectives would be planned so as to insure a continuous cycle of objectives.²

In considering an MBO approach for the Navy, we must also remember that the scalar principle is necessary for proper military organizational functioning. The chain of command was described by Fayol as:

. . . the chain of superiors ranging from the ultimate authority to the lowest ranks. The line of authority is the route followed--via every link in the chain--by all communications which start from or go to the ultimate authority. This path is dictated both by the need for some transmission and by the principle of unity of command, but it is not always the swiftest. It is even at times disastrously lengthy³ in large concerns, notably in government ones.

It would seem that the correct approach for MBO for the Navy would not be a clear-cut version of any of the foregoing descriptions, but would be a combination of them all. From Drucker could come the idea of more self-control

¹Likert, op. cit., pp. 181-183. ²Ibid.

³Fayol, op. cit., p. 14.

and less management by domination on applicable goals. From Odiorne the superior and subordinate jointly defining organizational common goals and each individual's major areas of responsibility. From McGregor the encouragement of integration of efforts toward the objectives of the organization without the characteristics associated with a soft approach under his Theory X. And from Likert, the principle of supportive relationships for organization members.

Navy Application in General

In many military organizations, apparently, form is mistaken for substance. An organization manual is prepared containing detailed position descriptions. Once the manual has been distributed, everyone assumes that all members of the organization understand what they are supposed to do. The fact of the matter is that this assumption is often incorrect. The descriptions themselves are typically incomplete, highly generalized, and frequently out of date. They are full of such words and phrases as "coordinate," "collaborate with," and "keep alert to." They are often inadequate in assigning basic responsibilities for important tasks that involve several participants. And, of course, they give almost no indication of the relative importance of major elements of performance.¹

¹Tomb, op. cit., p. 135.

A manager, military or civilian, should understand an organization not as a number of isolated parts, but as a system. He must have knowledge of the relationship between the parts and be aware of their potential interactions. The manager must bring these individual functions together into an integrated organizational system with all the parts working toward the common organizational goals. The MBO concept emphasizes the importance of efficient subsystem performance.¹

Charles Hitch, the former Comptroller of the Defense Department, made the following comments about objectives:

We must learn to look at objectives as critically and as professionally as we look at our models and our inputs. We may, of course, begin with tentative objectives, but we must expect to modify or replace them as we learn about the systems we are studying--and related systems. The feedback on objectives may in some cases be the most important result of our study.²

Feedback is very important in the Navy. Not only is it important for making corrections on goals for the future, but also for the difficult task of performance appraisal. Despite the nonpunitive nature of goals and objectives, they can easily be used for performance appraisal and such

¹Richard A. Johnson, Fremont E. Kast, and James E. Rosenzweig, The Theory and Management of Systems (New York: McGraw-Hill Book Company, 1967), pp. 66-67.

²Charles J. Hitch, On The Choice of Objectives in Systems Studies (Santa Monica, California: The RAND Corporation, 1960), p. 19.

purposes as promotions, coaching, self-development, and training. The achievement of results against objectives comprises the review and follow-up process.¹

Another application of MBO in the Navy is the use of the Planning, Programming, and Budgeting system. PPB is directly related to MBO. PPB was originally described as follows:

The principle objective of PPB is to improve the basis for major decisions, both in the operating agencies and in the Executive Office of the President. To do this, it is necessary to have clear statements of what the decisions are and why they were made. Program objectives are to be identified and alternative methods of meeting those objectives are to be subjected to systematic comparison. Data are to be organized on the basis of major programs, and are to reflect future as well as current implications of decisions. As in the case of budgeting generally, PPB applies not only to current programs, but to proposals for new legislation. . . .²

One of the major problems facing the military manager of the future is that of balancing for best results the carrot and the stick. It has been pointed out by others that the human donkey requires either a carrot in front or a stick behind to goad it into activity. An important question is how can a manager maintain incentive, either through the carrot or the stick, without abandoning the aims of the organization? How can an organization have

¹Odiorne, Training by Objectives, op. cit., p. 99.

²Executive Office of the President, Bulletin #68-2, July 18, 1967, Bureau of the Budget, Washington, D.C.

worthwhile goals and still maintain motivation for accomplishment? And put another way, how can the carrot and the stick be combined with a pleasant life for the donkey? That this requires managerial ingenuity for finding means of sharpening the appropriate sticks or sweetening the right carrots is both obvious and challenging. MBO is at least part of the answer.¹

¹Koontz and O'Donnell, op. cit., pp. 789-790.

CHAPTER VII

SUMMARY AND CONCLUSION

Purpose is the bridge between the past and the future which functions only as it rests upon the present.

--Chester I. Barnard

Management by objectives is the "total concept" approach to management. It is a philosophy of management, a master strategy which deals with the organization as a whole.¹ This concept is not only applicable, but essential to all types of military and civilian organizations which are striving to achieve the maximum potential of a totally integrated operation. MBO is a practical theory and a complete system which when properly used, is dynamic in its operation.

Urwick emphasized the need for theory in management when he wrote:

We cannot do without theory. It will always defeat practice in the end for a simple reason. Practice is static. It does and does well what it knows. It has, however, no principle for dealing with what it doesn't know. . . . Practice is not well adopted for rapid adjustment to a changing environment. Theory is light-footed. It can adopt itself to changed circumstances, think out

¹Newman, Summer, and Warren, op. cit., p. 483.

fresh combinations and possibilities and peer into the future.¹

Drucker and Odiorne have provided organizations with an approach which can lead to many positive consequences if utilized correctly.² The contributions of MBO far outweigh its limitations. The limitations are readily overcome by the proper installation and maintenance of the system.

MBO is more than the substitution of new labels for old. It makes planning and control an integral part of the everyday thinking and acting of every manager. It lifts planning and control out of systems and procedures category and provides the basis for a total operating program for every individual with responsibility. MBO does this by integrating the thoughts and actions of all the personnel in an organization.³

Managerial effectiveness has its past, its present, and its future. MBO can be designed around any one or any combination of these time orientations. The past emphasizes "appraisal," the present emphasizes "coaching," while the future emphasizes "outputs." Elements of appraisal and coaching are still part of MBO, but the biggest emphasis is on learning from the past and harnessing the resources of

¹Lyndall F. Urwick, Notes on the Theory of Organization (New York: American Management Association, 1952), p. 10.

²Ivancevich, et al., op. cit., p. 150.

³Tomb, op. cit., p. 141.

the present to become effective in the future.¹

In an effective MBO organizational climate, work relationships become dynamic networks for both personal and organizational achievements. ^{on}No incidental gain from such arrangements is that problems are more likely to be solved spontaneously at the lowest possible levels, and free superiors simultaneously from the burden of the passed buck and the onus of being the purveyors of hostility.²

Management by objectives is clearly one of the most important developments in the whole managerial field.

Peter Drucker put it this way:

The ability to go around obstacles rather than charge them head on is a major requirement for managing by objectives . . . depression slows attainment or is even a standstill . . . new developments may change objectives--all objectives have to be reexamined continually. Yet, setting objectives enables a business to get where it should be going rather than be₃the play-thing of weather, winds, and accidents.

A statement by John B. Connally, Jr., which he made soon after becoming the Secretary of the Navy, shows his appreciation of the system of management by objectives:

I'm a transient . . . but the Navy will always be here My primary mission is, I believe, to inspire the desire to do an even better job than they are already doing--without me or any future Secretary ordering them to The

¹Reddin, op. cit., p. 18.

²Levinson, op. cit., p. 134.

³Drucker, The Practice of Management, op. cit., p. 61.

solution is not for me to sit here issuing directives, but to serve as a focal point to broaden the vision, encourage¹ the initiatives of the rest of the organization.

By scientifically investigating ongoing MBO programs in the future, a complete body of knowledge concerning the benefits of the approach can be developed. Hopefully, more empirical studies will be conducted and reported to ascertain the full potential and weaknesses of management by objectives programs.²

¹John B. Connally, Jr., "The Solution Is Not Me Issuing Directives," Armed Forces Management, November, 1961.

²Ivancevich, et al., op. cit., p. 150.

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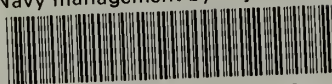
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